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## JOURNAL OF THE STATISTICAL SOCIETY,

SEPTEMBER, 1865.

*On the "COUNTRY CLEARING." By SIR JOHN LUBBOCK, BART.,  
F.R.S., V.P. LIN. S., V.P. ETHN. S., and Honorary Secretary  
to the London Bankers.*

[Read before the Statistical Society, June, 1865.]

THE Transactions of the Statistical Society for 1856 \* contain an interesting paper by Mr. Babbage on the Statistics of the Clearing House during the Year 1839. It is not my intention in the present paper to follow out the line of thought, or to prosecute the inquiries commenced by Mr. Babbage in that communication; nor is it necessary that I should occupy the time of the Society by any explanation of the general system pursued in the Clearing House.

I may, however, take this opportunity of expressing my opinion that it would be desirable if some arrangement could be made to publish, each week, perhaps at the same time as the Bank of England returns, a statement of the total daily amounts passed through the Clearing House.

Before quitting the subject of Mr. Babbage's paper, I would also say a few words as to two of the four questions which he asks in the first page of his memoir. "In order," he says, "to obtain some knowledge of the total amount of the sum which changes hands during the year, it would be necessary to know—

"1st. The proportion of the transactions of bankers which passes through the Clearing House, to that which does not.

"2nd. The proportion which the transactions of those bankers who clear, bears to the transactions of the bankers who do not clear.

"3rd. The proportion which the money transactions of the capital bears to those of the country.

"4th. The proportion of payments made in bank notes or coin by the public, both in town and in the country."

As regards the first and last of these questions, I think the experience of our house enables me to give, at any rate a partial and approximate answer.

\* Vol. xix, part i, p. 28.

In order to answer the first question asked by Mr. Babbage, namely, "the proportion of the transactions of bankers which passes "through the Clearing House to that which does not," I took an amount of 23,000,000*l.*, which passed through our hands during the last few days of last year, and found that it was made up as follows:—

	£
Clearing .....	16,346,000
Cheques and bills which did not pass through the clearing .....	5,394,000
Bank notes .....	1,137,000
Coin .....	139,000
Country notes .....	79,000
Total .....	<u>23,095,000</u>

This amount is probably large enough to give something like a fair average, but if the Statistical Society would prefer that a larger amount should be taken, I could easily do so, because in taking the particulars of the cash paid into our hands, we divide it as above, in order to assist us in getting the balance right at the close of the day. The "Money" and "Note" columns in these books, which we call "Goldsmith Books," ought to agree with the books at the counter, the clearing column ought to agree with the total amount in the clearing books, and so on. This enables us to get the work right in sections, and when we are wrong at the end of the day, we know in which direction to look for the error. It is hardly necessary for me to observe that the proportions thus obtained apply only to our own business. Probably in no two banks would they be found to be identical, though, if I might venture to express an opinion, I should think that the general average which would be obtained from a similar analysis of the transactions of all the clearing banks would not be very different.

It would appear from this that out of each 1,000,000*l.*, rather more than 700,000*l.* passes through the clearing.

The second amount given above, 5,394,000*l.*, includes of course the transfers made in our own books from the account of one customer to that of another. These amounted to 3,603,000; the remainder, 1,791,000*l.*, representing the cheques and bills on banks which did not clear.

Mr. Babbage's last question has reference to "the proportion of "payments made in bank notes or coin by the public, both in town "and in the country."

In order to ascertain the proportion of payments made in bank notes and coin in town, I have taken an amount, 17,000,000*l.*, paid in by our London customers. This was made up as follows:—

	£
Cheques and bills on clearing bankers .....	13,000,000
„ ourselves .....	1,600,000
„ other bankers .....	1,400,000
Bank of England notes ..	674,470
Country bank notes .....	9,470
Coin .....	117,927
Total .....	<u>16,802,000</u>

But in order to give a satisfactory answer to Mr. Babbage's question, the above amount of bank notes, small as it is, must, I think, be still farther reduced. All the clearing bankers have accounts at the Bank of England, and as we require notes to supply our till, we draw them from the Bank of England, crediting the bank in our books. Out of the above amount of 674,470*l.*, 266,000*l.* were notes thus drawn by us from the Bank to replenish our till, and did not represent an amount paid in by our customers to their credit. This amount must therefore, I think, be deducted from both sides of the account.

On the other hand, we must add the amount of bills paid in for collection and discount and loans on security, which pass through a different set of books, and which represented a sum of 2,460,686*l.* Making these alterations, we find that out of 19,000,000*l.* credited to our town customers, 408,000*l.* consisted of bank notes, 79,000*l.* of country bank notes, and 118,000*l.* of coin.

	£
Cheques and bills .....	18,395,000
Bank notes .....	408,000
Country „ .....	79,000
Coin .....	118,000
Total .....	<u>19,000,000</u>

Out of each million, therefore, only 21,500*l.* consists of bank notes, and 6,210*l.* of coin.

If, then, these figures are taken, as I think they may be, to represent fairly the proportion which the use of notes and coin bears in the commerce of London to that of cheques and bills, we shall find that, taking bank notes, country bank notes, and coin together, they figure for less than 37, the other 977 being transacted by means of cheques and bills.

Finally, I have endeavoured to ascertain the average amount of each bill and cheque. The result would, however, vary so much according to the nature of the business, that it is perhaps not of much importance. Nevertheless, some general conclusions are obtainable, and at any rate they will not occupy much space.

As regards cheques, the amount varies very much in different classes. The largest cheques are those used in Stock Exchange transactions; and having taken out the amounts of 1,500 cheques paid into our hands on the last settling day, a number which I thought would be sufficient to give something like an average, I find they represented a total sum of 871,000*l.*, giving an average for each cheque of 579*l.* If the Stock Exchange cheques only had been taken, the average would have been still larger. In order to ascertain the average on ordinary days, I took out the amounts of 1,000 cheques paid in on the 31st May, and found that they represented rather more than 299,000*l.*, giving for each an average of 299*l.* A total of 8,500 clearing cheques, of which 1,849 belonged to a settling day, gave an average of over 300*l.* These cheques include a small number of bills, which it is impossible to eliminate, because when a bill is paid into us on the day it becomes due, we treat it in the same manner as a cheque. These bills are not, however, sufficiently numerous to affect the result. Cheques on bankers who do not clear are much smaller in amount, they do not generally represent commercial transactions, and 1,000 of them represented 80,698*l.*, giving an average of 80*l.* each. If we were to exclude the cheques on Messrs. Overend, Gurney and Co., Messrs. Alexander and Co., and other financial houses, this average would be still further reduced.

As regards cheques on country bankers, I have taken those which passed through our hands on the 3rd and 5th of June last. They were 5,848 in number, and represented an amount of 164,974*l.* 19*s.* 10*d.*, giving an average of 28*l.* each.

Finally, 11,709 bills, forming the majority of those passing through our hands last month, represented 3,342,366*l.*, giving an average of 285*l.* each.

The main object of the present communication is, however, to give the Society, at the request of my friend Dr. Farr, an account of the last important change which has taken place in the business of the Clearing House, namely, the establishment of the system which is technically known as the country clearing.

A country banker receiving from his customer cheques on other banks in the same town, presents them over the counter for payment in the ordinary manner. It is evident, however, that this method of collection can only be practised as between bankers carrying on their business in the same town.

The system of collection as regards other cheques was, until lately, as follows. The country banker A, receiving a cheque drawn on another country banker B, sent the cheque by post direct to B. B then requested C, his banker in London, to pay the amount to D, the London correspondent of A.

In the year 1858, however, it occurred to some of the country bankers that this system was unnecessarily complicated and laborious, and that it might be simplified by the establishment of a central office in London for the special purpose of clearing country cheques. With this object in view, a meeting of country bankers was held on the 29th of September, and a committee was appointed, of which the Honourable Alexander Leslie Melville, of the Lincoln Bank, was chairman, while Mr. William Gillett, with whom more particularly I believe that the idea had originated, acted as secretary.

This committee placed themselves in communication with, and requested the co-operation of, the London Bankers, who held a meeting at the Clearing House on the 12th of October, to take the matter into consideration. It was resolved that we should give the country bankers all the assistance in our power, and with this object a sub-committee, consisting of Mr. Glyn, Mr. Bevan, Mr. Loyd, and Mr. Smith, was appointed to confer with the committee of the country bankers.

On reflection, it appeared to me that the system proposed by Mr. Gillett, though an improvement on the present system, was by no means the best that could be devised, inasmuch as it would necessitate the organization of a large and entirely new establishment, the appointment of one or two experienced and responsible managers, a considerable staff of skilled clerks, and the use of a large office, all of which would have entailed a considerable expense on the country banks. Moreover, every London banker knows that the operations of clearing require so much accuracy and quickness, that we never think of entrusting the operation to any but experienced and skilful hands.

The London bankers on the contrary had, in my opinion, the means of giving the country bankers all the facilities they required without any great additional labour or expense, and I endeavoured to point out in the following paper the manner in which, as it seemed to me, this might be effected:—

*Rules for the Conduct of a Clearing of Country Cheques in London.*

1. A clearing to be held in the middle of each day for the interchange, among the London bankers, of cheques on their correspondents in the country, placed in their hands for collection.
2. Each London banker to remit for collection to his country correspondents the cheques drawn upon them, saying, "Please say if we may debit you £  
"for cheques enclosed."
3. Country bankers wishing to avail themselves of this clearing, to remit their country cheques to their own London agent, to stamp across them their own name and address and that of their London agent.
4. Any country bank not intending to pay a cheque sent to it for collection, to return it direct to the country bank, if any, whose name and address is stamped across it.



bank is small and the transactions are few, it is comparatively immaterial what system is adopted; and when a business has grown to a large size, it is very difficult to make a change. Again, even when similar books are in use in different banks, they as often as not bear different names, and again, the same names are applied to very different books.

For these and similar reasons it was very difficult for me to convince my brother bankers that it would be possible for us to meet the wishes of the country banks and afford them the advantages they desired, without taking upon ourselves a more than equivalent amount of labour. It was, however, felt to be very desirable that the system should be adopted if possible, and it was of course evident that it could not be efficiently carried out except with the cordial co-operation of all the principal clearing banks. I was therefore requested by the committee of bankers to meet the principal clerks of the different houses, and lay before them the details of the manner in which I thought that we might carry out the wishes of the country bankers, without entailing any great additional labour on ourselves.

At this meeting, which took place shortly afterwards, a report was unanimously agreed to, in which the system as suggested by me was recommended for adoption. This report was read to the London bankers, and after the sub-committee appointed for that purpose had conferred with the sub-committee of country bankers, it was resolved "that the papers furnished by Mr. Lubbock, entitled 'Rules for the "Conduct of Clearing Country Cheques,' be adopted, and it be recommended that a copy of this paper be sent by each London banker to their country correspondents." At the same time it was resolved to commence the new system on the 23rd November, which was accordingly done, and a large number of country banks at once availed themselves of it.

Very little consideration is required to see that the London bankers herein undertook an operation of a very novel and delicate character. In the first place, we had to agree our balances among ourselves on one day, and settle them two days after on the return of post. It is evident that the system could not be successfully worked if it were not for the great regularity in the postal communications. So admirable, however, are the arrangements of the post office, and of the various railways, that we have experienced little difficulty on this score.

Again, it must be remembered that the cheques had to be sorted, not according to the banks on which they were drawn, but according to the London correspondents of those banks.

Another practical difficulty with which we had to contend was, that some country banks were in the habit of charging commissions



Although the majority of country bankers paid in full all cheques drawn upon them, there were some large establishments whose custom was to deduct a small percentage. The amounts thus retained were indeed trifling, probably on an average not exceeding a shilling each, still in the aggregate they reached a considerable sum, and the manager of one large country joint stock bank informed me that in the case of his own bank they came to 600*l.* a-year.

The country banks which had been in the habit of charging these commissions, were naturally loth to abandon a source of profit which required no outlay of capital, and involved no risk of loss; and in some cases it was only by insisting that all cheques should either be paid in full or returned to the holders, that the system was broken through. The greater number, however, of the banks which had until that time charged these commissions, voluntarily and very considerably ceased to do so, when it was pointed out to them how much inconvenience was caused by the practice. In fact, the only way in which we could treat the commissions was, by passing fresh entries through all our books for each of them, thus practically doubling the work.

It was of course evident that the proposed system, though much safer, and in many ways more convenient than the old one, involved in many cases a certain loss of time. It was indeed a well established rule, that a banker is not bound to present a cheque for payment the same day that he receives it; that he may present it at any time during banking hours on the following day; and that a cheque drawn on a banker at a distance is legally regarded as presented when it is posted.

Under these circumstances it was evident that the country bankers had a perfect right to send their cheques through London if it was found more convenient to do so. Nevertheless, the country bankers' committee thought it prudent, in order to place the question beyond dispute, to draw up the following case\* and submit it to Sir Fitzroy Kelly, who was then Attorney-General, Mr. Wilde, Q.C., and Mr. Braithwaite.

Since this opinion was given, the question has been decided by an action brought against Messrs. Henty and Co., of Worthing. The case was decided in their favour, and the legality of the country clearing thus finally established.

I regret that it is not in my power to give the Society any statistics as to the number or amount of the cheques which pass daily through the country clearing. The system has, however, been adopted by the great majority of country banks, and by having rendered country cheques much more negotiable than was previously the case, has been a great boon to the country.

\* See Appendix.

## APPENDIX.

## CASE.

Many of the leading country bankers have lately had under consideration whether some plan might not be adopted, for obviating many inconveniences which country bankers incur in realizing cheques drawn upon other country bankers, received in the course of their business. In the instances in which the cheques are drawn upon banks situate in the same town little or no difficulty occurs, but when the banks on which the cheques are drawn are at a distance, which is frequently the case, there is both risk and inconvenience attending the procuring payment of them; the course for business with such latter mentioned cheques, is generally for the banker receiving them to transmit them by post to the bank on whom the cheques are drawn, with a request that the amount may be ordered to be paid in London to the credit of the remitting bank, with their London banking agents. A plan has been suggested for establishing in London a central Clearing House for country bankers, to which country bankers may remit for collection all cheques drawn upon other country bankers, instead of remitting such cheques either to the drawers, or to some other party for presentment to them, thus a bank, say Messrs. Lloyds and Co. at Birmingham, upon receiving a cheque drawn on (for instance) Messrs. Gillett, bankers at Banbury, instead of remitting the cheque to Messrs. Gillett direct for payment, would send it to the proposed London Clearing House, and the cheque might be written across or stamped in the manner shown below, to designate the bank remitting the same for collection.

Banbury, 28th May, 1858.

Messrs. JONATHAN, CHARLES, and ALFRED GILLETT,	
Bankers, Banbury,	
28th May, 1858.	
Pay to	self
Five Pounds.	
£5 .. 0 .. 0	
Through Clearing House.	From LLOYDS & CO., BANKERS, BIRMINGHAM.
London.	
	or bearer
	G. S.

If therefore Messrs. Lloyds and Co. of Birmingham had received, say, forty cheques in any one day upon as many different country bankers, they would remit the whole to the proposed London Clearing House in one envelope, and on the same day on which they received them, instead of having to write and send forty letters to the different bankers (which from the pressure of business they might not be able to send until the post of the following day). At the Clearing House the cheques would be sorted, and lists made out of the cheques drawn on each banker, and transmitted with the cheques themselves to the bank on whom they are drawn, this being necessary in order that the bankers may by inspection satisfy themselves that the cheques are genuine. The bank on whom the cheque is drawn, if it has not effects, or has for any other reason to refuse payment, will be expected to return the cheque direct to the bank whose name and address are stamped upon in, and by the same post advise the Clearing House of having so done. It may be objected against this plan that a delay would be incurred to the prejudice of the drawers or holders of the cheques of one post before the cheque reached the bank on whom they were drawn, since the cheques would not be presented until the day following that

next after the one on which they were sent off, but in answer to this objection it may be observed, that no banker is bound to remit a cheque for collection on the same day as that on which he receives it, and that in practice, as before remarked, he is occasionally from press of business or other cause unable to do so, whereas the banker would always be able to send his cheques to London on the same day that he received them, the London posts generally being later in the day than the country posts; and a cheque, if dishonoured, would be received back in many cases as early as at present. Moreover, the communication by cross-posts is not so certain or expeditious as direct with London, and is more subject to accidents of loss or theft, and in fact no more delay would generally take place by the proposed plan of sending them to a London Clearing House than if the cheque were sent direct on the day after it was received, to the country bank on whom it was drawn, and at the most there would not be more than one post day additional. In adopting the proposed plan of a Central Clearing House what the country bankers would have to guard against, would certainly be the risk of being charged with laches by their customer, for not having duly presented the cheque and not giving timely notice in the event of its dishonour, but it is suggested whether, if there be any such risk, it may not be obviated by inserting a printed notice in the pass book of each customer, that all drafts on other country bankers, would be sent for presentment through the Central Clearing House in London, and that the bankers would not hold themselves responsible for not presenting the cheque direct to the drawees or for not giving timely notice of dishonour. It is also suggested that if the country banks generally adopted the plan of a Central Clearing House, the usage would in the course of time, if general, become binding upon their customers.

It is obvious that if a banker, say at Birmingham, receives a cheque drawn upon a banker at Durham, or other remote place, he cannot be expected to send a special messenger to present it, or incur the risk of sending it to a private person or even to another bank (if there should be one) in the same place, for presentment.

Perhaps the cheque might purport on the face of it to be presentable through the London Clearing House. As all cheques must now be stamped, there does not appear to be any fiscal objection to this course.

It is said in "*Chitty on Bills*," p. 386, 9th edition (but no authority is cited), that if a cheque on a banker be delivered to a person at a place distant from the place where it is payable, it will suffice to forward it by post or otherwise to some person residing at the latter place on the day after it is received, and it will suffice for him to present it on the third day; this would consume as much time as would be occupied in sending the cheque (by the proposed plan) to London, and thence to the bank on whom the cheque is drawn.

See also the case of *Moule v. Brown*, 5 Scott, 544, 4th Bing. at C. 266 S. C., and the case of *Bond v. Warden*, reported in 1 Collyer's "*Chancery Reports*," p. 583.

Your opinion is requested—

1. Whether country bankers, receiving in the course of business cheques on other country bankers, will be warranted in transmitting them for collection to such a Central Clearing House as is proposed to be established?
2. If it be considered that banks so remitting cheques for collection will be guilty of laches, whether any difficulty on this point may not be obviated by affixing in each customer's pass book a notice in writing of the course of business adopted for the presentment of country bankers' cheques, or whether the cheques themselves may not be made presentable through the Clearing House, or whether any and what other course should be taken by the country banks to protect themselves from loss on score of laches?
3. Whether the establishment of such a Central Clearing House in London, to which country cheques may be remitted by the country bankers, for the purpose of receiving payment, would be a course of business which, if generally adopted by the country bankers, would become binding upon their customers?

We have considered the foregoing Case, and are of opinion,—

*First.* That country bankers receiving, in the course of business, cheques on other country bankers, will be warranted in transmitting them for collection to such a Central Clearing House as is proposed to be established *upon the basis above stated*, in all cases where the bank transmitting cheques to such Central Clearing House, is within such a distance from London as to admit of the cheques so transmitted, being posted from London to the respective banks upon which they are drawn, on the day next after such cheques are first received by the transmitting bank. The rule is well settled, that the holder of a cheque may present it, at any time during banking hours on the day after he receives it, and we apprehend it to be clear, that where the holder and the bankers on whom the cheque is drawn, reside in different places, a cheque *posted* the day after it is received to the bankers on whom it is drawn, would be considered in point of law, as presented in due time, though not in fact actually delivered to such bankers on that day. In cases so circumstanced, the act of forwarding the cheque by the general post is, as regards the question of time, equivalent to presentation. This being so, the proposed arrangement for a Clearing House for country cheques would not, in the case of bankers residing within the limits above specified, have the effect of interfering with the ordinary rule.

But as regards banks situate at such a distance from London as not to admit of the cheques transmitted by them to the proposed Clearing House being posted *from London* to the banks upon which they are drawn, on the day next after such cheques are first received by the transmitting banks, we are of opinion that they could not avail themselves of the proposed arrangement, without incurring the risk of being made liable to the losses which may arise from the non-payment of such cheques on their presentation or transmission after the time limited by law.

*Secondly.* As regards banks lying beyond the requisite distance from London, we think that the difficulty may be obviated by giving to each of their customers distinct notice of the course of business adopted for the presentment of country bankers' cheques, through the medium of the proposed Clearing House. This notice may probably be most conveniently given, as mentioned in the Case, by means of a printed notice in each customer's pass book, but we do not think that it would be sufficient merely to state upon the cheques, that they are presentable through the Clearing House, unless it were proved that the customers signing such cheques clearly understood the course of business adopted at the Clearing House.

*Thirdly.* We do not think that the establishment of the proposed Clearing House can create a usage, binding on parties *not cognizant of it*, at variance with the existing law.

FITZROY KELLY.

JAMES WILDE.

J. B. BRAITHWAITE.

Temple, 27th July, 1858.

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